Nancy Grandquist comments

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To: CDFIHELP; Josephs, Matthew
Subject: Comments on New Market Tax Credit --Allocation Application

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Dear Matthew:

Thank you for the opportunity to comment on the NMTC Application. My comments are delinquent (delayed because I am at the Social Security Judge's Conference in Buffalo, NY) but I appreciate being afforded the opportunity to share some thoughts for your consideration. Since 2003, I have had the pleasure as serving as a New Markets Tax Credit Reader/Reviewer and have been very pleased with the evolution of the Application that I have seen. You and your staff have done a superior job in developing a thorough Application that collects the necessary information that filters through what the Applicant is saying they intend to accomplish as it compares to actual lending and community impacts they have accomplished. In addition, I believe the application process where three anonymous individuals score the same application independently is the most equitable process there is to score such high dollar competitive Applications where only about twenty per cent of the Applications received are approved. That said, below are some comments regarding the specific questions the Fund requested comment on and a few recommendations that may be of some value:

Q#1: Is the information that is currently collected by the Application necessary and appropriate for the Fund to consider for the purpose of making award decisions? Please consider each question and table in the Application. Are there questions or tables that are redundant and/or unnecessary? Should additional questions or tables be added to ensure collection of more relevant information?

Comment: The information currently collected by the Application is necessary and appropriate for the Fund to consider making award decisions. It is well organized and requires careful review by each Applicant who is serious about their Application scoring compeitively.Some Applications I reviewed in this most recent round did copy and paste information repeatedly but (as though they felt the narrative being asked for was redundant) the highest scoring applications did not do this and took the opportunity to further justify how they would use NMTCs as effectively as possible. Due to the complex and strict IRS requirements involved with NMTCs and that many Applicants are applying for over $100 million of funding it is appropriate, though not required, that many Applications I reviewed appear to have engaged the services of CPA firms specializing in NMTCs to increase their chances for approval(at least for their first Application for NMTCs). I believe the highly competitive nature of the NMTCs, the complex IRS requirements and high dollar awards (increased potential for abuse) differentiate the NMTC program from the other Programs the Fund offers and as such makes all the information on the current application necessary. However, there are a few recommendations for additional information/tables that the Fund could provide/request that could be added to help Applicants and further refine the review process:

1.) A list of the 12 regional FHLBanks with the states/territories they cover in parenthesis and their toll free rate lines could be provided on the Application,by the Fund, so Applicant's could call and check the wholesale advance interest rates in their region at the time they fill out the application for the maturity of each loan product they intend to offer based upon monthly ,quarterly, annual, principal repayment terms they choose. Each FHLBank can price what they call bullet advances,too, where interest is paid monthly and there is no principal paid until maturity (i.e. 7 years). This would enable Applicants to determine the basis point spread lenders in their area are charging for similar retail loan products giving the Applicant the ability to accurately access the percentage discount they are willing to offer with respect to Q#16 and 17;

2.) It would be helpful if a diagram/chart could be added as part of the Application showing how the Applicant envisions the flow of funds (what entity would get what fees and QEIs) should they be awarded NMTCs. The diagrams could be blanks provided by the Fund similar to the ones provided to Readers for our NMTC training, this past June, on leverage structures and non leverage structures;

3.) A clarification of need for NMTCs could be demonstrated if a chart could be added (similar to LISC's
http://www.liscnewmarkets.org/HelpFiles/LISC%20NMTC%20Basics%20-%20FAQ.pdf
<http://www.liscnewmarkets.org/HelpFiles/LISC%20NMTC%20Basics%20-%20FAQ.pdf>
)explaining how NMTC's will result in the availability of additional financing for projects by delineating the sources and uses of the investment fund, the CDE and the QALICB.

4.) If a question could be added somewhere on the Application asking if the CE or CDE has Board of Directors (BOD) liability insurance or in the case of a public entity what regulatory agency has sanctioning powers this would be helpful,too. If they do have BOD liability insurance I believe it would be appropriate to ask with who and what their annual premiums are and the amounts of coverage. If not, I think the Fund should explore the feasibility of asking Applicants if they are willing to purchase such insurance if they are allocated NMTCs.

Q#2. Are the thresholds contained in Question 17 of the Application appropriate, given current economic conditions? If not, what should the criteria include? Should the Fund provide a range of flexible product commitments based on a discount of interest rates below market as defined by basis point reductions (or other product flexibility) or continue to present commitment options in present commitment options in percentage terms?

Comment: The thresholds contained in Q17 could be eliminated and instead the Applicant could be asked to fill in the blank with exactly what percentage of discounts they will be offering (since they could accurately do this if the FHLBank wholesale rate line information is provided as mentioned above and they are required to list the spreads in basis points that will be added to each nontraditional product offered regardless if it is match funded with a community investment advance from their regional FHLBank or not). The revision to Q17 could look like this:

The Applicant will commit that 100 percent of its QLICIs will be provided in the form of equity; equity-equivalent financing; debt with interest at _____ percent below market (if different discounts apply to different borrowers please list separately) ; and that otherwise satisfies the following indicia _(list)____________ of flexible or non-traditional rates and terms, as listed in Question 16.

Furthermore, the Fund could collaborate with the Federal Housing Finance Agency (regulator of the 12 FHLBanks) to secure an agreement whereby when Applicant's call their rate lines for wholesale advance rates they would agree to perform a present value calculation when requested by any NMTC Applicant. When I was Community Investment Officer of the FHLBank of Des Moines our Finance division used to perform this calculation to determine the present value of the Affordable Housing Program(AHP) subsidy needed to discount the interest rate on a loan (based upon the principal repayment provisions and maturity) to the retail rate the AHP Applicant lender wanted to make available to the project. This AHP rate would be locked in for up to two years. As an example, say the wholesale FHLBank advance rate on a certain maturity is 4.5% and the lender's AHP application scores competitively to be approved to add a 2% (200 basis points) spread but the borrower/project needs a retail rate of 4%. Then the present value calculation is performed to buy the interest down 250 bp to 2% over the life of the loan/advance. This FHLBank calculation (as they can accurately determine opportunity costs) factored in an additional .25 bp FHLBank discount on the advance rate (wholesale loan that retail lenders match funded) they make available to all qualified community investment projects (which all NMTC projects qualify by the way). Each FHLBank has the capacity to perform this calculation instantaneously and accurately.

Q#3. A CDE is entitled to earn five''priority points'' for committing to invest substantially all of its QEI proceeds in businesses in which persons unrelated to the CDE hold the
majority equity interest (within the meaning of I.R.C. section 267(b) or 707(b)(1)). With respect to the timing of this test, the CDFI Fund has determined that it is to be applied after the initial investment is made, and for the life of the seven-year compliance period
(though an exception is permitted if events unforeseen at the time of the initial investment cause the CDE to have to subsequently take a controlling interest in the business). Is it
appropriate that this test is applied after the investment is made, or should the CDFI consider applying this test before the investment is made?
Comment: It seems appropriate to me that the test ought to be applied after the investment is made, with the exception mentioned, but perhaps I am unaware of an issue that is problematic in this regard.

Q#4. The Application currently collects outcome information on the applicant's historic community impacts and projected economic development impacts in Table C1 and Table C2, respectively, and collects information on projected community development impacts in Question 30. Are there changes that should be made in the way projected economic development is currently measured? Are there other outcomes/impacts for which the Fund should be collecting information to ensure effective use of the NMTC? Should the Fund have a greater focus on community development outcomes impacts? Alternatively, should the Fund focus exclusively on economic development outcomes/impacts?
Comment: The information collected on projected community development impacts in Q30 is excellent and I have found the information in Tables C1 and C2 more then adequate when completing my reviews as a NMTC Reader. It would be nice if there was a way to condense the CD impacts in Q30 (create or maintain jobs, increase wages for LIP/LIC, assist LIC businesses, assist minority, women or LIP owned businesses, businesses that provide child care or health care to LIPs and/or facilitate LIP/LIC wealth creation by providing goods and services to LIP/LICs by creating environmentally sustainable outcomes or reduce rents to LIP/LICs) but I am at a loss on how that could be done unless rather then require an item by item narrative/quantification you allowed Applicants to provide an overall summary on how they would quantify and collect the information from the ultimate borrowers.

Q#5. Do Question 56 and Table F1 of the Application capture all sources of compensation and profits that the applicant and its affiliates receive in connection with NMTC transactions?How can collection of this information be improved? How should the Fund use this information? For example, should the Fund make the applicant's stated fees a specific condition of the Allocation Agreement, and should the Fund set limits on fees in the Allocation Agreement?
Comment: Yes, I believe that Q56 and Table F1 capture most sources of compensation and profits that the Applicant and its affiliates receive in connection with NMTC transactions. However, I would like to see Table F1 further refined to show fees indicated not only in basis points but with another column added to show the corresponding dollar amounts. Also, in many instances when I was completing my reviews it was not clear to me what entity would be charging the spread(profit margin) on the loan in leveraged transactions and how the money would flow and to whom. It would be helpful if this could be clarified.

Q#6. In any given Application round, the Fund requires applicants that have received awards in previous rounds to demonstrate that they have been able to raise minimum threshold amounts of QEIs from their prior awards (see the 2009 NOAA for the current

minimum threshold requirements). Are these current minimum threshold requirements sufficient? Should the Fund consider using different measurements, such as the amount of QEIs that have been deployed as investments in low-income communities?
Comment: I have no comment as I am not sure I understand what the issue is as it seems to me as competitive as the NMTC program is that it is imperative that Applicants be able to demonstrate that they have been able to raise minimum threshold amounts of QEIs from their prior awards.

Q# 7. The Fund generally caps award amounts to any one organization in a given round. In the 2009 Application round, this cap was set at $125 million. Is this an appropriate amount? Should the Fund consider raising the cap significantly (e.g., to $250 million), and prohibit a CDE that receives such a large allocation award from applying again for an established period of time?
Comment: Yes, I think the Fund should consider raising the cap to $250 million as long as a set aside for applications under $50 million is also provided. Also, any CDE that receives a large allocation award should be prohibited from applying again until a certain portion (the Fund know best what portion this should be) of the previous allocation has closed. I do not think it should be based on a period of time as there may be some areas that experience unusual demand and in this economy all viable qualified projects need access to NMTC funding and should not be forced to wait due to an arbitrary timeline set until the only CDE they may have access to can apply again.

Q#8. In April 2009, the Government Accountability Office released a report titled: ''New Markets Tax Credit:Minority Entities Are Less Successful in Obtaining Awards than Non-Minority Entities'' (GAO-09-536). Are there actions that the Fund should take in order to increase the number of minority CDE applicants and allocatees?
Comment: Yes, I think the Fund should setaside at leat 25% of their annual NMTC allocation solely for applications requesting under $50 million that are sponsored by certified Minority, Woman, Disadvantaged or Small Business Enterprises. These applications should be scored separately using the same criteria because smaller applications typically cannot compete effectively for NMTC funds because of capacity issues. When I was a vice president at the FHLBank managing the AHP program we found setting aside 25% of our annual AHP subsidies was an effective way to reach rural lenders who did not have a large volume of business but did have the ability to disburse funds efficiently. Also, when I was contracting for a new infill housing development, as executive director of a nonprofit housing development company, out of the 50 single family homes we setaside 20% for a competitive bid specifically for women and minority general contractors and it worked very well. The large contractors (which can include women and minority owned but typically don't) were able to competitively bid on the remaining 40 houses.

9. Are there changes that can be made to the application process or elsewhere, that will increase the amount of Qualified Low-Income Community Investments that support activities that have not traditionally received large scale financing from NMTC investment proceeds (e.g., loans and investments for small business operations; loans to and investments in other CDEs, including CDFIs; purchase of loans from other CDEs; etc.)?
Comment: No comment, as I do not have sufficient expertise to make recommendations in this regard without reviewing those NMTC allocatees that have used NMTCs for the purposes listed.

10. Currently, the Fund uses economic distress factors from the most recent decennial census to qualify eligible census tracts and to verify, when applicable, that awardees are
serving ''severely'' distressed communities. Are there other public sources of data on economic indicators (e.g., American Community Survey three- and five-year estimates for
poverty rate, area median income, and unemployment rate) that are updated more frequently.
Comment: All public sources of data on economic distress factors that are updated more frequently AND the Fund deems as valid sources should be accepted and listed

for Applicants to access and qualify their census tracts.

Again, thank you for the opportunity to comment and I hope I have provided some useful points to consider. I look forward to serving as a NMTC Reader/Reviewer next year and someday would like the chance to serve as a debriefer on sensitive applications that have not scored competitively.

Best Always,

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